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Budget Deficit

It's a Shortfall!

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Budget Deficit - It's a shortfall!

David Rogers received \$25,000 last year in wages. He has no other source of income. During the year he spent \$35,000 for food, clothing, shelter, recreation, and a reasonable used car. To cover his deficit – the difference between what he received and what he spent, he borrowed \$10,000.

The government, like David Rogers, receives and spends money each year. The money the government receives comes mostly from taxes. It spends some of the money on goods and services, just as David Rogers does.

When the amount the government spends in any given year is greater than the amount it takes in, it incurs a deficit. If David Rogers sees a deficit ahead, he knows he must borrow to cover it. If the government sees a deficit ahead, it has a choice. It can borrow enough to cover the deficit, as David Rogers did, or it can raise taxes to bring in new funds. Tax increases are often politically unpopular, or unwise because of business conditions, so the government is more likely to borrow to cover its deficit.

The purpose of this paper is to explore the budget deficit at three different levels of government and how they interact with each other. They are (1) national, (2) state, and (3) local (agencies).

National Debt

The practice of balancing the budget has caused governments, companies, and individuals significant concerns over the year.

The first deficit, totaling \$1.4 million, occurred at the dawn of the Republic in 1792. The first deficit crystallized the great debate of the era between Thomas Jefferson and Alexander Hamilton. Hamilton championed industrialization by using the governments taxing power and its right to run up debt as a “useful illusion” of its political credibility. Jefferson disagreed. He wanted to pay it off. Congress, jealous of its power to tax and spend, refused to grant Hamilton a public hearing to present his plan for funding the debt. So he sent it up in writing, then retaliated by sending his annual appropriations request in lump sums. With no opportunity to examine the requests, Congress had little choice but to rubber-stamp them. The elders fired back by setting up the House Ways and Means Committee for permanent oversight of public money, a thorn in the side of administrations to this day. Hamilton nevertheless prevailed. He reorganized the country’s chaotic finances by floating long-term bonds, selling off lands in the West, and issuing a charming but alas now extinct form of annuity known as a tontine. Named after Lorenzo Tonti, a wise Neapolitan who invented it, this form of annuity splits up the interest among

*the surviving holders, who gamble that they will be among the last few left to profit from this ghoulis lottery.*¹

In excess of two hundred years, *the National Debt has reached \$6.3 trillion dollars.*² This has occurred because just like David Rogers, the federal government spends more that they receive annually. When they spend more than they receive, funds are borrowed to cover those costs. Thus interest must be paid on those borrowed funds. *Interest payment is a major cost for the nation.*³

Figures 1.1 and 1.2 shows how the nation receives its funds and what they spend it on.

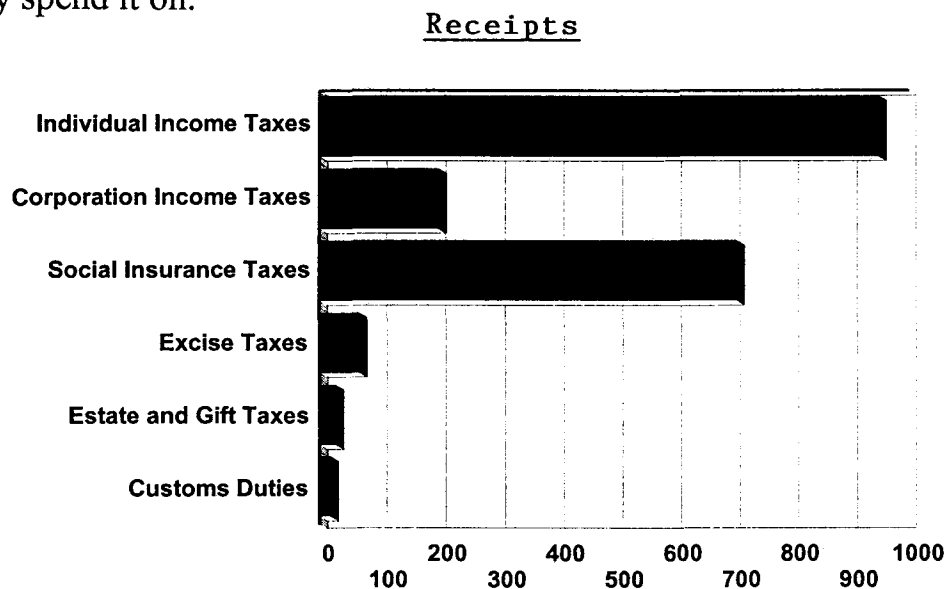


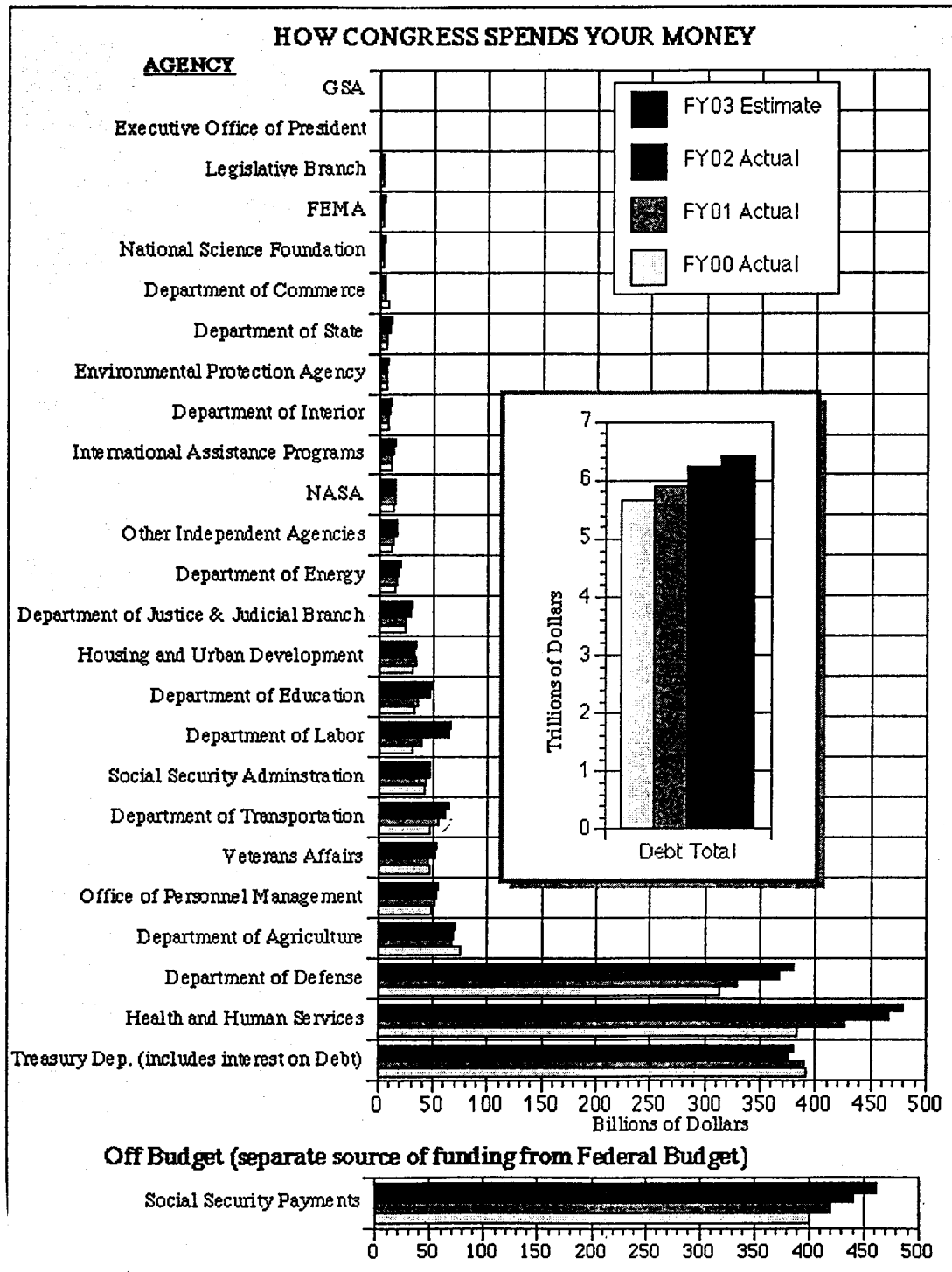
Figure 1.1

¹Lawrence Malkin, *The National Debt*, 1986, p.27-29.

²<http://www.federalbudget.com>.

³<http://www.federalbudget.com>.

Figure 1.2



⁴ <http://www.federalbudget.com>

State Debt

Unlike the federal government, state and local (agencies) are required by their constitutions or their laws to balance their budgets annually.

Borrowing for capital projects is permitted. In other words, funds may be borrowed to build schools, roads, transportation systems, etc. But borrowing to meet current expenses is forbidden by the constitution or laws of states and local governments.

There are several ways States may incur a deficit. In this paper, I will explore four ways in which a deficit may incur. They are as follows: a) federal shift of costs, b) inaccurate revenue projections, c) inaccurate spending projections, and d) funding recurring costs with non-recurring fund.

Federal Shift of Costs

The National Conference of State Legislatures (NCSL) has adopted a more aggressive lobbying stance regarding the issue of balancing the federal budget. It has introduced a new policy that pushes for the inclusion of the unfunded mandate issues in public discussions about the budget balance amendment. According to the new policy, the NCSL will only support the amendment if it includes language that protects states against

any move by the federal government to reduce its budget deficit by shifting costs to state governments.

Without the protection of language that controls unfunded mandates and cost shifts, a balanced budget amendment could have the unintended consequence of shifting the deficit to the states. Therefore, NCSL is urging that any constitutional amendment requiring a balanced federal budget include language that protects against cost shifting to state and local governments through mandates or other means such as conditions of aid.⁵

Inaccurate Revenue Projections

For the State of South Carolina, The Board of Economic Advisors (BEA) is responsible for economic forecasting. Economic forecasting is a means of predicting the economical trends in the states.

Revenue projections usually are the starting point for determining a state's budget. The inability to predict national and regional economic trends accurately, therefore, can cause states to enact budgets that cannot be funded.⁶

⁵Infotrac-custom.com."The balanced budget amendment".

⁶Corina L. Eckl, State Deficit Management Strategies", p.8.

Inaccurate Spending Projects

Budgeters are faced with the problem of trying to accurately forecast spending based on chains of events. For example, *if you're going to reduce TANF, you will need adequate day care.*

Inaccurate projections of funding needs for state services may cause states to spend above appropriated levels. Accurately projecting expenditures, therefore, also is important in the effort to avoid deficits.

Inaccurate spending projections usually result from doubtful assumptions employed in projecting state demographic and economic changes.⁷

Funding recurring costs with non-recurring funds

The State of South Carolina has used the tobacco settlement to fund recurring costs. By relying on this one-time money to balance the budget, this practice means that the next year's budget starts off at a deficit.

The American Lung Association is criticizing states for using tobacco settlement money to cover budget deficits instead of anti-smoking programs.

In 1998, tobacco companies agreed to pay \$206 billion over 25 years to 46 states to settle lawsuits. South Carolina's share was \$2.2 billion.⁸

⁷Corina L. Eckl, *State Deficit Management Strategies*", p.8.

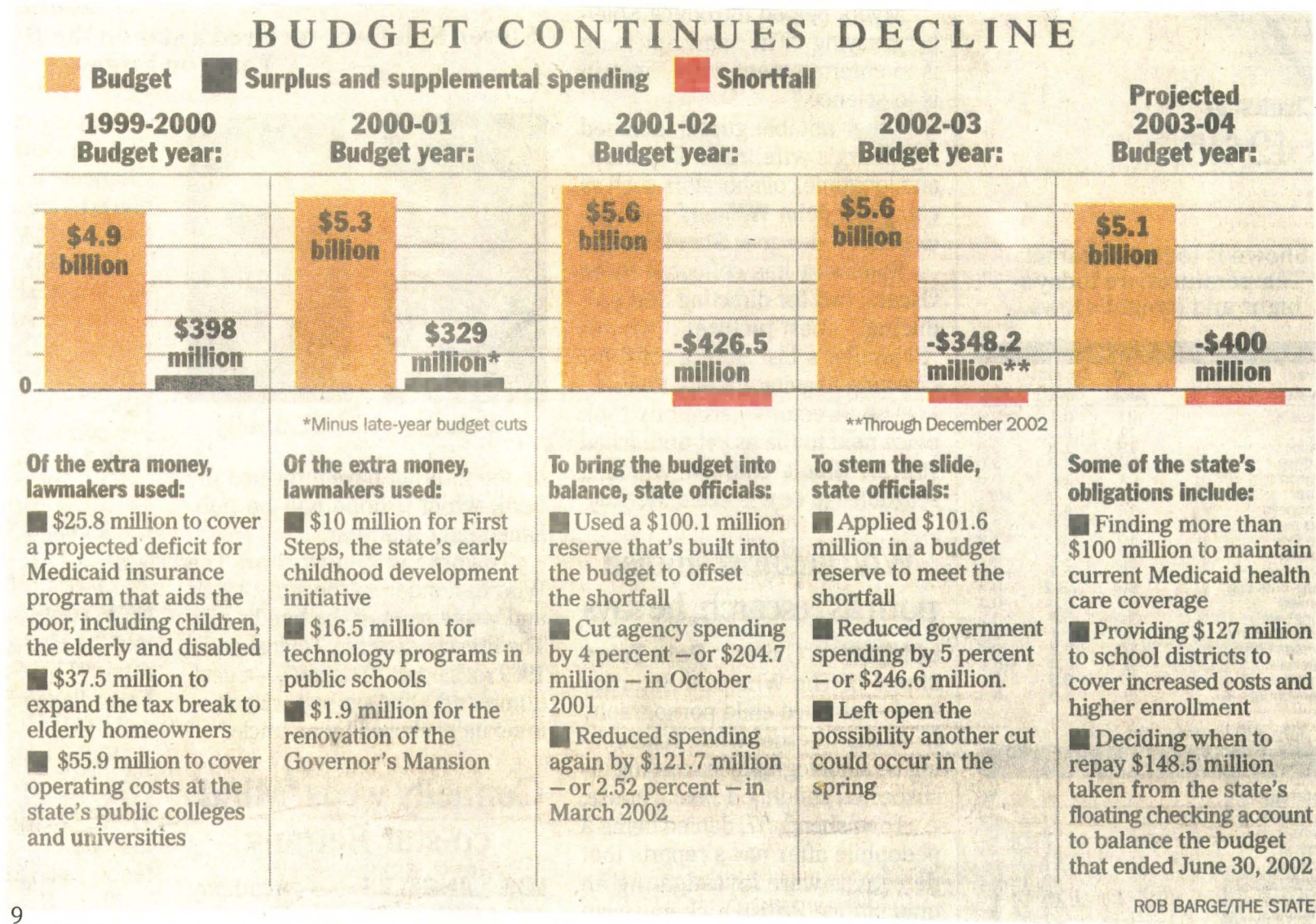
⁸Erin McClam, *Tobacco funds not going to prevention, study says*, "The State Newspaper", January 7, 2003.

A budget deficit - shortfall can incur due to several reasons.

However, as stated earlier, state and local (agencies) are required by law to balance their budgets annually. Therefore, in an effort to comply with the law, state government may require local (agencies) to share in a shortfall.

Figure 2.1 on the next page outlines the states' financial position from state fiscal year 2000 through 2004. First, it should be noted that from state fiscal year 1999-2001, the state experienced a surplus of approximately \$350 million dollars. This surplus was used to cover expenses generated in education, health insurance, and other services for citizens in the State of South Carolina. A budget shortfall or deficit of approximately \$392 million dollars has occurred and/or been projected for 2001-2004 budget years.

Figure 2.1



Rob Barge, Budget Continues Decline, "The State Newspaper", January 12, 2003.

Local (Agencies) Debt

The work of the Department of Social Services (DSS) is broad and deep. The agency has changed from one that writes checks for Aid to Families with Dependent Children into one that trains people for jobs and helps people achieve self-sufficiency. It also provides financial assistance through child support collections, medical assistance, and food benefits.

DSS provides Child Protective Services and direct intervention to help children in crisis because of abuse or neglect. The Agency provides Foster Care and Adoption services; it monitors and investigates allegations of abuse; and it works to protect vulnerable adults. DSS is about helping people who cannot help themselves, while helping others develop the tools to improve their own lives. It is about protecting the helpless and giving a helping hand to those who need one.¹⁰

As indicated in Figure 2 on page 9, in state fiscal year 2001-2002, the state had a revenue projection shortfall of \$426.5 million dollars. Agencies were required to reduce their state appropriated funds by \$204.7 million dollars to cover a portion of the shortfall. Of that amount, the DSS portion was \$7.0 million.

¹⁰,"Changing Faces for Tomorrow", DSS, 1996 Annual Report

Again in state fiscal year 2002-2003, the state had another revenue projection shortfall of \$348.2 million dollars. Agencies were again required to reduce their state appropriated funds by \$246.6 million dollars to cover a portion of the shortfall. Of that amount DSS had to cover \$5.4 million. It should also be noted that in state fiscal year 2001-2002, the General Assembly reduced DSS' state appropriation by \$19.7 million dollars. In addition, DSS was directed to transfer \$2.0 million dollars in earmarked funds to the General Fund of the State. This amounted to a budget reduction over \$34 million dollars for both fiscal years.

In an attempt to help management approach this problem, a survey (Appendix A) was sent out to front line workers. This survey was to collect ideas from them on ways the agency could reduce costs and still provide federal and state mandated services to clients. A total of 100 surveys were distributed to various employees and thirty were returned.

The results (Appendix B) will be forwarded to upper management to try to assist them during this difficult process.

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Rob Barge, Budget Continues Decline, "The State Newspaper", January 12, 2003.

The Department of Social Services, *Changing Faces for Tomorrow*, 1996 Annual Report.

Name (Optional): _____

☐

Alone

☐

Group

Question # 1: How long have you been with the Agency?

- a) Less than two years
- b) Between two and ten years
- c) More than ten years

Question # 2: What area do you most closely identify yourself with?

- a) Administration/Management
- b) Administration Support
- c) Case Worker
- d) Program Support

Question # 3: Do you feel that employees have sufficient input in management decisions?

- a) Yes
- b) No

Name (Optional): _____

☐

Alone

☐

Group

Question # 4: Do you believe there is waste in the Agency?

a) Yes

b) No

Question # 5: Do you feel that top management is sincere in their efforts in communicating with employees?

a) Yes

b) No

Question # 6: Do you have input in decisions that affect your job?

a) Yes

b) No

Name (Optional)

11

Alone

11

Group

Question # 7: Considering the economic situation, what suggestions would you make to help the Agency reduce it's costs?

1. The first step in the process of creating a new product is to identify a market need. This involves conducting market research to understand the target audience's preferences and pain points. Once a need is identified, the next step is to develop a concept that addresses this need. This concept should be innovative, feasible, and profitable. The third step is to create a prototype, which allows the team to test the product's functionality and gather feedback from potential users. After refining the prototype based on feedback, the team moves on to the fourth step: developing a business plan. This plan outlines the product's market strategy, financial projections, and operational requirements. Finally, the product is launched into the market, and the team monitors its performance, making adjustments as needed to ensure long-term success.

Question	Response (A)	Response (B)	Response (C)	Response (D)
1. How long have you been with the Agency?	3	15	12	-
2. What area do you most closely identify yourself with?	7	5	11	7
3. Do you feel that employees have sufficient input in management decisions?	3	27		
4. Do you believe there is waste in the Agency?	25	5		
5. Do you feel that top management is sincere in their efforts in communicating with employees?	8	22		
6. Do you have input in decisions that affect your job?	12	18		

Question 7: Considering the economic situation, what suggestions would you make to help the Agency reduce costs?

